

# Elected Officials' Retirement System City of Baltimore, Maryland

Comprehensive Annual Financial Report  
Year Ended June 30, 2010



A Component Unit of the City of Baltimore, Maryland



# **Elected Officials' Retirement System City of Baltimore, Maryland**

## **Comprehensive Annual Financial Report Year Ended June 30, 2010**

**PREPARED BY:**

**Roselyn H. Spencer, EXECUTIVE DIRECTOR**

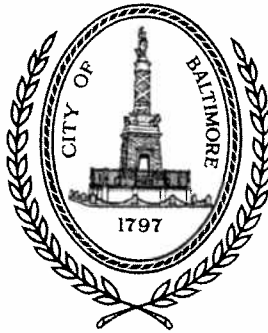
**Bernita Y. Kittrell, DEPUTY DIRECTOR**



**A Component Unit of the City of Baltimore, Maryland**



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## **Elected Officials' Retirement System**

### **Mission Statement**

The System is committed to protecting and prudently investing member assets and providing accurate and timely retirement benefits with quality service to members and beneficiaries.

### **Standards of Conduct**

As Trustees and Staff, we are committed to:

- Safeguard the members' assets.
- Strive for continuous improvement.
- Maintain confidentiality as appropriate.
- Effectively communicate accurate information.
- Provide accountable and proactive leadership.
- Conduct all business in a fair and respectful manner.
- Foster an atmosphere of cooperation and teamwork.
- Value members as clients and advocate on their behalf.
- Comply with the System's plan provisions, policies and guidelines.
- Work efficiently, simplify procedures, and minimize bureaucratic hurdles.
- Form alliances and partnerships to benefit the membership and the System.

*We expect all who interact with us to adhere to these standards of conduct.*

Approved by the Board of Trustees February 21, 2002

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# Introductory Section



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Elected Officials' Retirement  
System, City of Baltimore  
Maryland

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

A Certificate of Achievement for Excellence in Financial  
Reporting is presented by the Government Finance Officers  
Association of the United States and Canada to  
government units and public employee retirement  
systems whose comprehensive annual financial  
reports (CAFRs) achieve the highest  
standards in government accounting  
and financial reporting.



President

Executive Director

## **EOS Final DRAFT 2010 for review:**

December 31, 2010

### **The Board of Trustees and Members of the Elected Officials' Retirement System**

It is my pleasure to present the Comprehensive Annual Financial Report of the Elected Officials' Retirement System of the City of Baltimore, Maryland (EOS, System, Plan), a component unit of the City of Baltimore, Maryland (City) for the fiscal year ended June 30, 2010. The System's administration is responsible for the accuracy of the data and the completeness of the presentation, including all disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the EOS' operations.

According to accounting principles generally accepted in the United States, management is required to provide a narrative introduction, overview and analysis of the financial statements of the System in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report in the Financial Section.

This report is structured in five sections: introductory, financial, investment, actuarial, and statistical information. The Introductory Section includes a letter of transmittal, the Board of Trustees and an organization chart. The Financial Section highlights the MD&A and other financial statements. The Investment Section provides the Investment Advisor's Report on Investment Activity, System's investment program, and investment professionals. Finally, the Actuarial and Statistical Sections which contains the Independent Actuary's Disclosure Certification, assumptions tables, Summary of Plan Provisions, and membership statistics.

**PROFILE OF THE PLAN:** The EOS is a single employer defined benefit local government retirement plan, established December 5, 1983 that covers the Baltimore City Mayor, the Comptroller, and the President and members of the City Council. All System-related administrative and benefit provisions are established by City Ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. By law, the same Board of Trustees that administers the Employees' Retirement System also administers the EOS.

Normal service retirement benefits are provided for members who attain twelve years of membership service and age fifty, or sixteen years of membership service regardless of age. The Plan also provides coverage for disability and death benefits. Vesting occurs after accomplishing twelve years of membership service. Members contribute 5% of compensation to the Plan until age sixty and thirty-five years of service. Members who leave office or who are not re-elected may continue membership in the Plan by making both the employee and employer contributions. Annually, active plan participants receive a detailed report of their benefits and contributions made to the Plan during the current year. As of June 30, 2010, total EOS membership was at 40, consisting of 17 actives, 22 retirees and beneficiaries, and 1 terminated vested member.

**MAJOR INITIATIVES:** Information system resources remained a focal point as we invested in crucial business continuity areas. In prior years, we worked on protecting the data center by upgrading the air conditioner unit and applied sealants to allow for adequate temperature control and fire suppression. Servers and operational software were upgraded to provide security, sufficiency and reliability.

This year, Information system resources are focused on scanning members' paper files into a digital storage and retrieval system. The scanners, computers and software required to scan the paper files have been acquired, installed, and placed into production. As an operational tool, this system will



improve counseling and retirement services to the members by making their information instantly available online. It is also a valuable disaster recovery tool since the digital files will be backed up and saved offsite. Acquiring a full service benefits administration system continues to be a priority item for the coming year. It is essential to get a Benefits Administration System because it will replace the City's current Legacy system that maintains members' demographic and historical data.

**FINANCIAL AND ECONOMIC SUMMARY:** Compared to a year ago, the US economy experienced moderate growth that was sometimes bumpy and not as smooth as expected. According to the Broad Market indices and other financial indicators, as of June 30, 2010, the Dow Jones Industrial Average (DJIA) was up 19% or 9,732.53 from 8,447.00. The stock market made a sharp advance with double digit returns, as the S&P 500, a leading market index level rose 14% to 1,031 points from nearly 800 points a year ago. Dividend yield was up 2.1% and 10 year Treasury yield was at 3.0%. There is also continued evidence that the US Government Stimulus Packages are working, as exemplified by General Motors, one of the bailed out recipients who recently came out of restructuring in a much stronger position, to start paying back some of its bailed-out loan.

In spite of all this, concerns about Euro/US debt crisis, devaluation of the Euro, persistently high unemployment in the US and looming mortgage crisis created legitimate fears about another credit crisis. This caused a flight by investors, from some asset positions to seeking cover in safe haven Treasuries. As increased market volatility mired the recovery, recessionary fears escalated, leading to the quick action of the Federal Reserve, who switched abruptly to quantitative easing mode, injecting liquidity and lowering policy rates.

For the coming year, investors exploring global investment opportunities will be faced with some new dynamics. For one, the global economic power is shifting from the US and Europe to Asia. This is due to high Sovereign deficits, consumer debt, housing and high unemployment that continues to weigh down expectations and economic growth in the West. Another observation is the split that is taking place in the Euro zone, between countries with high sovereign debt mainly in the southern parts (Dubai, Greece, Italy, Portugal, and Spain) and the northern countries such as Germany, France and Great Britain with strong economic growth.

**INVESTMENT SUMMARY:** The Board of Trustees (Board) has full control of all investments of the EOS funds as provided by the Plan provisions. They are also responsible for establishing reasonable investment objectives, developing investment policy guidelines, selecting and evaluating performance results to assure adherence to guidelines, and achievement of the fund's objectives.

Like most Plans, the EOS Board took decisive action to protect and assure resilience in a moderate economic environment. The Board remained consistent with the existing investment policy but continued to implement changes made to the asset allocation by expanding the international allocation to include small cap and the ACWI ex US index fund. (Please refer to the Investment Section for more details on the new target asset allocation). The EOS investment objective is to earn or exceed a 7.50% rate of return or to outperform the return of its policy portfolio consisting of 44% Russell 3000, 21% MSCI EAFE, and 35% Barclays Capital Aggregate.

Total Net Asset Value (NAV) for the fiscal year grew by 10.3% to \$14.2 million. This was due to positive investment performance of 12.9%, which by far exceeded the 2009 return of (21.3)%. Strong performance in domestic and international equities is credited for the outperformance. Although the fund slightly underperformed its policy benchmark, it finished ahead of the median Public Pension Fund index by 1.2%, ranking in the 25<sup>th</sup> percentile of the Wilshire Public Fund Universe. The annualized rate of returns for the three and five year periods ending June 30, 2010 were (6.6)% and 6.1% respectively.

**FUNDING RESULTS:** The level of funding is very critical to the financial soundness of a pension plan. A higher level of funding gives the participants a higher degree of assurance that their pension benefits are secure. As such, the EOS funding objective is to meet long-term benefit obligations through contributions and investment income. Over the past years, employer contributions continue to fluctuate, based on the investment return, size of the plan, number of members eligible to retire, and the nature of the benefits. In order to avoid employer contribution fluctuations associated with varying rates of return, the Board of

Trustees has adopted an asset smoothing technique, which realizes investment gains or losses above or below the assumed rate of return over a five-year period, not to exceed 10.0% of the Plan's assets.

The funding ratio remained the same at 84% primarily due to an increase in the net asset value. The actuarial valuation reflected an increase of the excess unfunded actuarial liability from \$2.8 million in fiscal year 2009, to an unfunded \$3 million in fiscal year 2010. The liability loss of \$0.6 million is due to demographic experience difference than the assumed. This resulted in an increase in the recommended employer contribution of \$957 thousand for fiscal year 2011, an increase of \$617 thousand from the previous year. The long-term solvency of the System however, remains strong, on an actuarial basis, as illustrated on page 30 in the "Schedule of Funding Progress". This schedule compares the accrued liabilities, calculated according to the plan funding method, to the actuarial value of assets.

**ACCOUNTING SYSTEMS AND INTERNAL CONTROL:** This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board. The accrual basis of accounting is used to record assets and liabilities and revenues and expenses. Revenues for the EOS are recorded when earned regardless of the date of collection, and expenses are recorded when liabilities are incurred regardless of when payment is made.

The System's administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected from loss, theft or misuse and to ensure that adequate accounting data are maintained to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules.

**INDEPENDENT AUDIT:** The Baltimore City Code stipulates that the City's Board of Estimates shall select an independent auditor for the Retirement System, and that the auditor shall report findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the Department of Audits render an opinion as to the fairness of the System's financial statements. The independent auditor's opinion is contained in the Financial Section of this report.

**PROFESSIONAL SERVICES:** The Board of Trustees appoints consultants and investment managers subject to the approval of the City's Board of Estimates. These professionals are chosen based on their ability to provide services that are essential to the effective and efficient operation of the Plan. Professionals that provide services to the Board of Trustees are listed in the Introductory Section and Investment Section of this report.

In executing its investment duties and responsibilities, the Board adheres to an investment authority known as the "prudent person rule". The "prudent person rule" establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the System. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the System participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. The Board recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the Plan's assets, as well as, to maximize the earnings of the Plan consistent with its long-term needs.

**AWARDS AND ACKNOWLEDGMENTS:** For the 24<sup>th</sup> consecutive year (fiscal years 1986-2009) EOS was awarded a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. A Certificate of Achievement is a prestigious acknowledgement that is valid for one year and is awarded to only those governmental units who meet or exceed the strict standards and criteria of the association. I believe that this Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements. It will be submitted to the GFOA to determine its eligibility for another certificate.

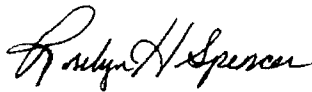
This report will be forwarded to the Mayor, the Comptroller, the President and members of the City Council,

and also to the other members of the Board of Estimates. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and the City of Baltimore.

The past two years presented a number of challenges, including layoffs, salary freezes and furloughs. Through it all, the EOS staff remained unwavering in the quality of their work and in the services they provided to our members. This CAFR is one reflection of the work we do. I am very grateful to our accounting and administrative staff for their contribution in preparing this report.

I also wish to acknowledge the tremendous support and guidance received from the Board of Trustees, our consultants, and actuary throughout the year. As we look ahead, I am grateful for the confidence and trust that you - our members - continue to place in us, to maintain a strong and reliable system capable of meeting your short and long term retirement benefit needs.

Respectfully submitted,

A handwritten signature in cursive script, reading "Roselyn H. Spencer". The signature is written in black ink and is positioned below the "Respectfully submitted," text.

Roselyn H. Spencer

CITY OF BALTIMORE

STEVE DUNN, Mayor



EMPLOYEES' RETIREMENT SYSTEM and  
ELECTED OFFICIALS' RETIREMENT SYSTEM

ROSELYN H. SPENCER, Executive Director  
711 Redwood Street  
12th and Hills Floors  
Baltimore, Maryland 21202

December 31, 2009

To: The Members, Retirees and Beneficiaries of  
The Elected Officials' Retirement System

Thankfully, the worst recession in nearly 30 years is finally over, and a moderate economic recovery is in progress. Many of us knew that the challenging events would come to an end, we just did not know when or how. Like most pension funds, investment performance for the Elected Official's Retirement System (EOS, System) was hit hard in 2009, with a loss of 21.3%. Most of the loss came from investments in the tactical asset allocation strategy that was heavily weighted to equities. The System's total net asset value also dropped by 25%, due to the negative performance result. Another key indicator is the funding level, which declined to 84%. Naturally, we are hoping that the market recovery is sustained long enough to realize some improvement in the System's performance.

In spite of the System's performance, let me assure you that the EOS is financially sound and your benefits are secure. All eligible members will receive their full pension benefits when they are due, regardless of the market activity. Accordingly, on January 1, 2010, retirees will receive a Cost of Living Adjustment as a result of the active members receiving a raise.

In terms of developments, we hired a new investment consultant, Marquette Associates, Inc., who hit the ground running, with a new asset allocation intended to stabilize the portfolio. The proposed allocation removed the tactical asset allocation strategy, and added mid-cap and international small cap equities. I am confident that even with a moderate recovery, the fund will be well positioned to capture any upside gains.

I would like to commend my fellow Trustees for their firm commitment and valuable contributions, to ensure that the EOS is stable and financially sound. During this unpredictable period, the Board stayed keenly focused on the investment goals and objectives of the Fund, which included: preserving capital, maintaining adequate liquidity to meet benefit liabilities; meeting the actuarial interest rate assumptions; and without unduly jeopardizing the above objectives, exceeding the investment return objective by the astute management of funds.

On behalf of the Board of Trustees, I would like to express our thanks and appreciation to the Executive Director, Roselyn H. Spencer and her staff, the System's portfolio manager and consultants, who constantly make every effort to provide the highest quality service to the Board and to our members.

Finally, to you our members, I offer my appreciation for your confidence in the ability of the Board and staff to service your ongoing pension needs. I am cautiously optimistic about the future and moving forward with the hope for a better economy.

Sincerely,

A handwritten signature in black ink, appearing to read "Joan M. Pratt".  
Joan M. Pratt, CPA  
Chair, Board of Trustees



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**BOARD OF TRUSTEES**

**Joan M. Pratt, CPA**

**Chair**

**Ex-officio**

Comptroller of the City of Baltimore, Maryland

**Deborah F. Moore-Carter**

**Vice Chair**

**Term expires December 31, 2011**

Mrs. Moore-Carter is the Labor Commissioner for the City of Baltimore.  
She was elected by the active membership to serve a four-year term.

**Dorothy L. Bryant**

**Term Expires December 31, 2011**

Ms. Bryant is a Phlebotomist with the City of Baltimore Health Department.  
She was elected by the active membership to serve a four-year term.

**Brenda J. Clayburn**

**Term expires December 31, 2013**

Ms. Clayburn is currently the President of the City of Baltimore Union (CUB).  
Her official City job function is Office Supervisor in the Baltimore City Police Department.  
She was elected by the active membership to serve a four-year term.

**Ernest J. Glinka**

**Term expires December 31, 2011**

Mr. Glinka is a Retired Administrator for the City of Baltimore Retirement Systems.  
He was elected by the retired membership to serve a four-year term.

**Carlotta J. Oliver**

**Term expires December 6, 2011**

Ms. Oliver is a Managing Director with the Black Knight Asset Management Company in Washington DC.  
She was appointed by the Mayor.

**Thurman W. Zollicoffer, Jr., Esq.**

**Term expires December 31, 2011**

Mr. Zollicoffer is an Attorney with Whiteford, Taylor, & Preston, LLP in Baltimore, Maryland.  
He was appointed by the Mayor.

Both appointed and elected trustees serve four-year terms. Appointed trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. There are no limitations on the number of terms an elected trustee may serve.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**LEGAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR**

**LEGAL COUNSEL**

City of Baltimore  
Law Department  
George Nilson, Esq.

**ACTUARY**

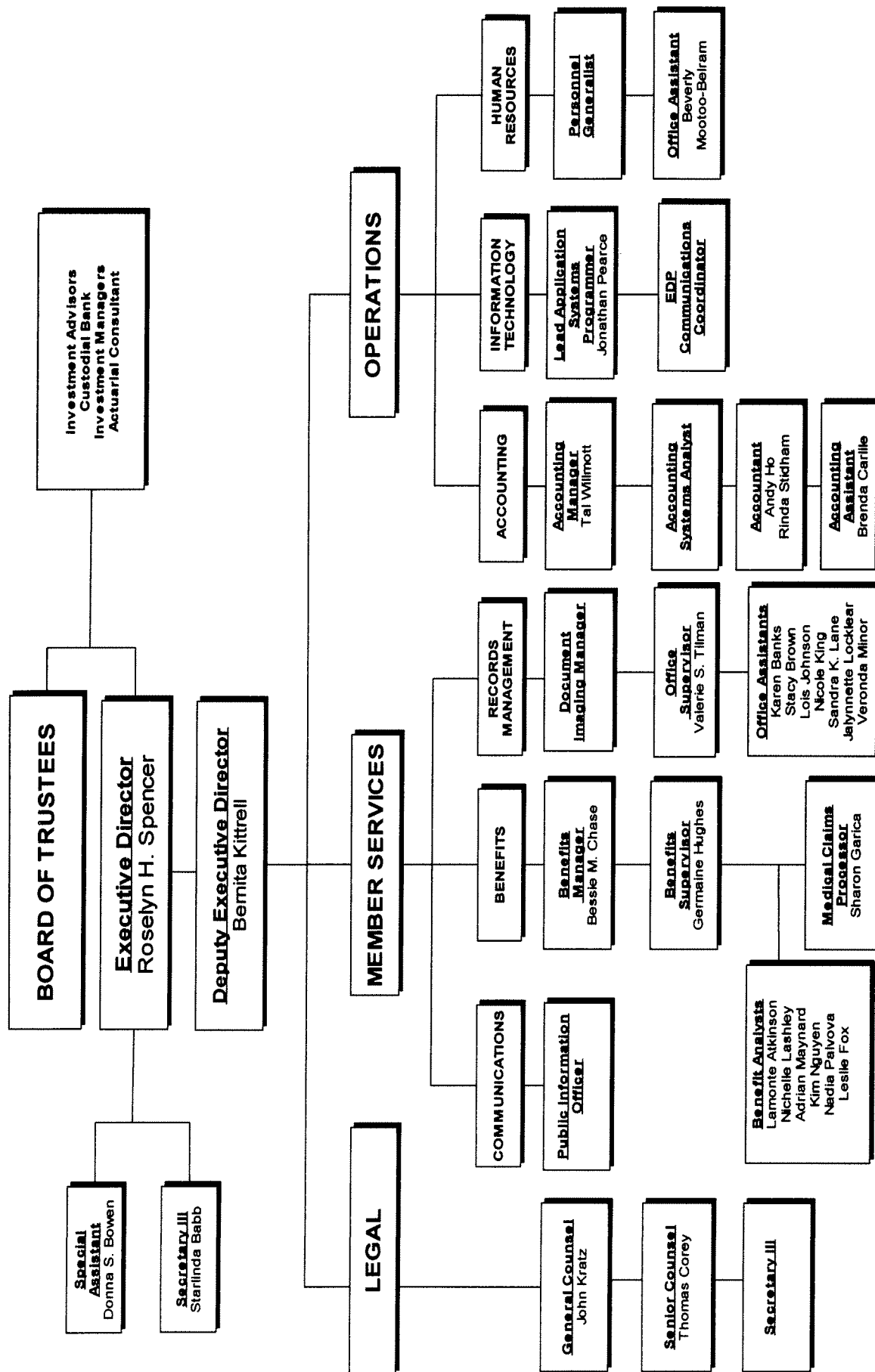
Cheiron, Inc.  
Kenneth Kent, F.S.A.  
McLean, Virginia

**INDEPENDENT AUDITOR**

City of Baltimore  
Department of Audits  
Robert L. McCarty, Jr., CPA

See page 44 in the Investment Section for a list of investment professionals.

**Elected Officials' Retirement  
City of Baltimore, Maryland  
Organization Chart**



# Financial Section





CITY OF BALTIMORE

SHEILA DIXON, Mayor



DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA  
City Auditor

Room 321, City Hall  
Baltimore, Maryland 21202  
Telephone: 410-396-4783  
Telefax: 410-545-3961

December 30, 2008

Honorable Joan M. Pratt, Comptroller  
And Other Members of the  
Board of Estimates of the  
City of Baltimore  
Board of Trustees of the  
Elected Officials' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Elected Officials' Retirement System of the City of Baltimore, Maryland, a component unit of the City of Baltimore, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Elected Officials' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Elected Officials' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Elected Officials' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Elected Officials' Retirement System as of June 30, 2008, and the respective changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 30, 2008, on our consideration of the Elected Officials' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elected Officials' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Robert L. McCarty, Jr., CPA  
City Auditor

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

We are pleased to provide this overview and analysis of the financial activities of the Elected Officials' Retirement System (EOS) for the fiscal year ended June 30, 2010. EOS is the administrator of a single employer defined benefit local government retirement plan (the Plan). Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 7 of this report.

**Financial Highlights**

- The net assets of the Plan at the close of the fiscal year 2010 are \$14,195,133. All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- The rate of return for the fiscal year ended June 30, 2010 was 12.9%, compared to the fiscal year ended June 30, 2009 return of (21.3)%, this was due to the investment performance of the Plan's assets.
- The Plan's total net assets held in trust for pension benefits increased by \$1,321,903 or 10.3%, as a result of positive investment performance.
- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2010, the date of our last actuarial valuation, the funded ratio for the Plan was 83.7%. In general, this indicates that the EOS has sufficient funds to cover every dollar of benefits due.
- Revenues (Additions to Plan Net Assets) for the year were \$2,086,048, an increase of \$5,700,797 from the prior year. Revenues include member contributions of \$59,358 and a net investment gain of \$1,686,860.
- Expenses (Deductions from Plan Net Assets) increase to \$764,145 from the prior year expenses of \$743,995 due to cost of living adjustments.

**Overview of Financial Statements**

The following discussion and analysis are intended to serve as an introduction to the EOS financial statements and the Financial Section of this report.

The **Statement of Plan Net Assets** provides a snapshot of the financial position of the EOS at June 30, 2010, the end of the Plan's financial year. It indicates the total assets and total liabilities at June 30, 2010, and the net assets available for future payment of retirement benefits and operating expenditures.

The **Statement of Changes in Plan Net Assets**, on the other hand, summarizes the EOS' financial activities that occurred during the Plan's financial year from July 1, 2009 through June 30, 2010.

The **Notes to Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The statements and the notes are in conformity with the accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the full accrual basis of accounting to record assets and liabilities, and revenues and expenses.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Statement of Plan Net Assets presents the Plan's assets and liabilities, as well as, the net assets available for future retirement benefits and operating expenses at June 30, 2010. The assets comprise receivables, mainly from member contributions, and investments at fair value. Investments are valued at the last reported purchase or sale price. Purchases and sales of investments are recorded on a trade date basis. The payables comprise retirement benefits, investment management fees, and administrative expenses.

The Statement of Changes in Plan Net Assets presents information showing how the Plan's net assets changed during the year. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when a formal commitment has been made by the City of Baltimore to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All investment gains and losses are shown at trade date. Both realized and unrealized gains and losses are shown on the investments.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets can be found on pages 22 and 23 of this report.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provide two schedules showing ten-year historical trend information concerning the funded status of the Plan and contributions made to the Plan by the employer. See the Required Supplementary Information beginning on page 30 of this report.

The remaining supplemental schedules provide additional detailed information concerning investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the Plan.

### Financial Analysis

Net assets may serve over time as a useful indicator of the Plan's financial position. At June 30, 2010, assets exceeded liabilities by \$14,195,133. All of the net assets are available to meet the Plan's ongoing obligation to Plan participants and their beneficiaries. As of June 30, 2010, total net assets increased by 10.3% compared to the prior year, due to investment performance. The Plan remains in a strong financial position to meet its obligations to the members, retirees and their beneficiaries.

<b>PLAN NET ASSETS</b>	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Investments at Fair Value	\$14,183,202	\$12,677,785	\$1,505,417	11.9 %
Other Assets	14,719	203,920	(189,201)	(92.8)%
Total Assets	14,197,921	12,881,705	1,316,216	10.2%
Total Liabilities	2,788	8,475	(5,687)	(67.1)%
<b>Total Net Assets</b>	<b>\$14,195,133</b>	<b>\$12,873,230</b>	<b>\$1,321,903</b>	<b>10.3 %</b>



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

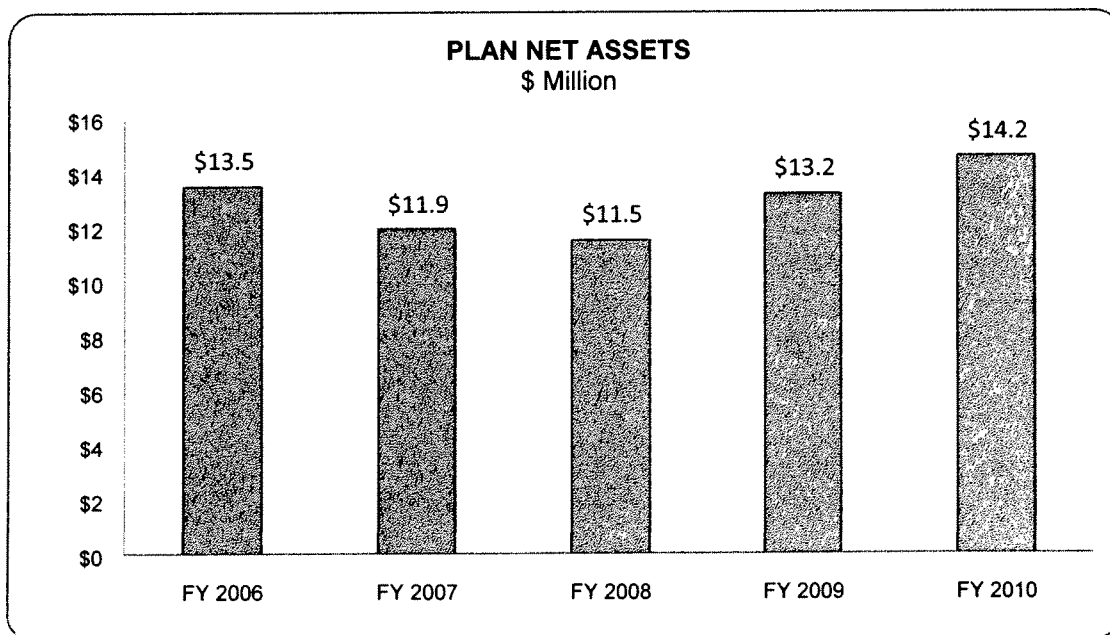
**Investment Assets**

EOS is a long-term investor and manages the Plan's assets with long-term objectives in mind. A primary element of the Plan's investment philosophy is to employ a diversification of assets as the best possible way to achieve its goals. The assets of the Plan are currently managed by an investment manager, who employs active and passive management strategies to take advantage of imbalances in the markets. The neutral position consists of 44% invested in the domestic equity index, 21% in the international equity index, and 35% in the fixed income index.

The implementation of a new asset allocation plan that is designed to enhance the risk adjusted return characteristics over the long term improved the Plan's performance with 12.9% return for the fiscal year 2010. The domestic equity index and return as of June 30, 2010 is 18.1%. The domestic equity index return outperformed its benchmark 15.7% by 2.4% for the fiscal year ending June 30, 2010. The international equity index return was 9.5 % and it underperformed its bench mark MSCI All County ex US index by 1.4%. The rate of return of 9.5% for domestic fixed income index of the Plan was in-line with its benchmark the Barclay's Capital Aggregate Index

Investments in this report are stated at fair value rather than at cost and include the recognition of unrealized gains and losses in the current period. The rate of return on investments for the year ended June 30, 2010 was 12.9% which is attributed to the performance of assets in the domestic fixed income and the new asset allocation of domestic equity and international equity index funds for the fiscal year 2010. The annualized rate of return for the three and five year periods ended June 30, 2010 were (6.6)% and 1.6%, respectively. The Plan's long-term actuarial investment return assumption is 7.5%.

The Investment Section beginning on page 36 gives detailed information on the Plan's investment policies. See page 42 of this report for charts showing the asset allocation targets established by the Board of Trustees and the actual asset allocation of Plan assets at June 30, 2010.



**Liabilities**

The current liabilities are payables due to retirement benefit expenses, investment management fees

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

and operating expenses of the EOS office. The Plan is administered by the same staff that administers the Employees' Retirement System.

<b>CHANGES IN PLAN NET ASSETS</b>	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>	<b>Increase / (Decrease)</b>
<b>Additions</b>			
Employer Contribution	\$339,830		\$339,830
Members Contributions	59,358	\$ 58,617	741
Net Investment Income	1,686,860	(3,673,366)	5,360,226
Total Additions	<u>2,086,048</u>	<u>(3,614,749)</u>	<u>5,700,797</u>
<b>Deductions</b>			
Retirement Allowances	736,426	685,848	50,578
Administrative Expenses	27,719	30,849	(3,130)
Refund of Members' Contribution	0	27,298	(27,298)
Total Deductions	<u>764,145</u>	<u>743,995</u>	<u>20,150</u>
<b>Net Decrease</b>	<u>\$1,321,903</u>	<u>\$(4,358,744)</u>	<u>\$5,680,647</u>

#### **Contributions and Investment Income**

The employer's contribution to the plan in fiscal year 2010 is based on the actuarial valuation report for the year ended June 30, 2009. The negative returns from prior year; increase of active member salaries and retired membership benefit increases for fiscal year 2010 required an employer's contribution this year in the amount of \$339,830. Net investment income increased substantially due to investment performance in all asset classes. Investment expenses were \$4,806 and \$19,314 for fiscal years 2010 and 2009, respectively. The decrease of investment expenses is attributed to the asset allocation which reduced fees considerably.

#### **Retirement Benefits and Administrative Expenses**

The Plan was created to provide lifetime service retirement benefits, survivor benefits and permanent disability benefits to eligible members and their beneficiaries. The cost of such programs includes recurring benefit payments, lump sum death benefits, payments to terminated members, and the cost of administering the Plan.

The primary source of expense during fiscal year 2010 was for the payment of continuing retirement benefits totaling \$736,426, which increased from \$685,848 for fiscal year 2009. The cost of living increase for fiscal year 2010 was on an average of 2.5%.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Plan's finances and to account for the money it receives to the Board of Trustees, the Mayor and City Council, the Plan's membership and the City's taxpayers. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: The Executive Director, Employees' Retirement System, 7 E. Redwood Street, 12<sup>th</sup> Floor, Baltimore, Maryland 21202.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**STATEMENT OF PLAN NET ASSETS**  
June 30, 2010

**Assets**

Cash and Cash Equivalents		\$	12,507
Receivables:			
Other	\$	2,212	
Total Receivables			2,212
Investments, at Fair Value			
Domestic equity index fund	6,186,396		
Fixed income index fund	5,151,812		
International equity index fund	2,844,994		
Total Investments			<u>14,183,202</u>
Total Assets			<u>14,197,921</u>

**Liabilities**

Investment Management Fees Payable	659		
Other	2,129		
Total Liabilities			<u>2,788</u>

**Net Assets Held in Trust for Pension Benefits** \$ 14,195,133

The notes to the basic financial statements are an integral part of this statement.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
For the Year Ended June 30, 2010

**Additions**

Contributions		
Employer	\$ 339,830	
Plan Members	<u>59,358</u>	\$ 399,188
Investment Income:		
Net Appreciation in Fair Value of Investments	\$ 1,691,314	
Interest and Dividends	352	
Less: Investment Expenses	<u>(4,806)</u>	
Net Investment Income		<u>1,686,860</u>
Total Additions		<u>2,086,048</u>

**Deductions**

Retirement Allowances	736,426	
Administrative Expenses	<u>27,719</u>	
Total Deductions		<u>764,145</u>

**Net Increase** 1,321,903

**Net Assets Held in Trust for Pension Benefits**

July 1, 2009	12,873,230
June 30, 2010	<u><u>\$ 14,195,133</u></u>

The notes to the basic financial statements are an integral part of this statement.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**1. Plan Description:**

The Elected Officials' Retirement System of the City of Baltimore (EOS) is the administrator of a single employer defined benefit local government retirement plan (the Plan). Established December 5, 1983, the plan covers the Mayor, the Comptroller, and the President and all members of the City Council. Based on criteria established by the Governmental Accounting Standards Board, the EOS is a component unit of the City of Baltimore and is included in the City's financial report as a public employee's retirement system (PERS).

At June 30, 2010, the EOS membership consisted of:

Retirees and beneficiaries currently receiving benefits	22
Active plan members	17
Terminated vested member	<u>1</u>
Total	<u>40</u>

The Plan provides retirement benefits as well as death and disability benefits in accordance with Article 22 of the Baltimore City Code and may be amended by the Mayor and City Council of Baltimore. However, the reduction of benefits is precluded by the City Code. Membership in the Plan is mandatory upon taking the oath of office, unless the elected official is already a member of the Employees' Retirement System of the City of Baltimore.

Post-retirement benefit increases are indexed to future increases in the compensation for the position held by the elected official prior to retirement.

**2. Summary of Significant Accounting Policies:**

**Basis of Presentation:**

The accounting and financial reporting policies of the EOS included in this report conform to the accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting and financial reporting standards applicable to PERS. This report includes solely the accounts of the EOS, a component unit of the City of Baltimore. There are no component units of the EOS based on the nature of operational or financial relationships.

**Basis of Accounting:**

These financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when they are earned, expenses are recorded when liabilities are incurred, and investment purchases and sales are recorded as of their trade date. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**Method Used to Value Investments:**

Investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

**3. Contributions and Reserves:**

Plan members are required to contribute 5% of their regular compensation through payroll deduction. The City's annual employer contribution is determined through an actuarial valuation. According to the Plan provisions, Article 22 of the Baltimore City Code, contribution requirements of the Plan members and the City are established and may be amended by the Mayor and City Council. Administrative costs of the Plan are paid from investment earnings.

**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

The Plan provisions, Article 22 of the Baltimore City Code, establish the following reserves:

Annuity savings reserve - Accumulated in this reserve are members' contributions inclusive of interest credits, less amounts distributed upon termination of employment or death, or transferred to the Annuity Reserve for retirement.

Annuity reserve - Upon retirement, the accumulated contributions of members are transferred to this reserve. From this reserve, the member's accumulated contributions are paid as a life annuity.

Pension accumulation reserve - Employer contributions are credited and accumulated with earnings in this reserve. Certain death benefits are paid from here. In addition, when a member retires, an amount equal to the member's pension reserve is transferred to the Pension Reserve.

Pension reserve - From this reserve, the pension portion of the members' retirement allowance is paid. The pension represents benefits for life derived from contributions made by the employer and accumulated investment earnings.

At June 30, 2010, the balances in the legally required reserves are as follows:

<u>Reserves</u>	<u>Balance</u>
Annuity savings reserve	\$ 883,662
Annuity reserve	1,836,849
Pension accumulation reserve	1,652,721
Pension reserve	9,821,901
	<u>\$14,195,133</u>

At the date of the last actuarial valuation report, June 30, 2010, the above reserves were underfunded. The pension accumulation reserve assets were less than actuarially determined accrued liability in the amount of \$3,020,307.

**4. Cash and Investments:**

The Plan's cash deposits are entirely covered by federal depository insurance at all times.

The Board of Trustees (the Board) is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board accomplishes the daily management of the Plan's investments through an external investment advisor who acts as a fiduciary for the Plan and through external investment managers. The Board invests the assets of the Plan using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Board has adopted an investment policy and guidelines to formally document its investment objectives and responsibilities.

The investments of the Plan at June 30, 2010 are categorized, as indicated in the following schedule:

<u>Investments Type</u>	<u>Fair Value</u>
Domestic equity index funds	\$5,151,812
Fixed income index funds	6,186,396
International equity index funds	2,844,994
Money market funds	12,507
Total Investments	14,195,709
Less: Money market funds	12,507
Net total investments	<u>\$14,183,202</u>



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

Investments of the Plan are made by outside investment managers and are held under a custodial agreement with BNY Mellon Financial Corporation.

*Foreign Currency Exposure Risk*

At June 30, 2010, EOS did not hold any foreign currency or hedging foreign investment positions. EOS does not have a formal policy to limit foreign currency.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. The Plan has selected the duration method to disclose the exposure to changes in interest rates. The Plan does not have a formal policy to limit interest rate risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration</u> <u>(in years)</u>
Debt Securities:		
Fixed income index funds	\$6,186,396	0.0
Money market funds	<u>12,507</u>	0.0
Total Debt Securities	<u>\$6,198,903</u>	

*Credit Risk by Quality*

The Plan's investments are not rated for credit risk. The Plan does not have a formal policy to limit credit risk.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2010, the EOS has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

**5. Derivatives Instruments**

A derivative is a unique and often complex financial arrangement that a government may enter into with another party, typically a private-sector financial firm. The value or cash flows of a derivative are determined by how the market prices of the hedged item change. At June 30, 2010 the Employees' Retirement System did not hold derivatives with hedging investment positions.

**6. Funding Policy**

Funding of the System is accomplished through member and employer contributions, and the investment earnings. The System uses the projected unit credit funding method. The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. A ten year schedule of the funding progress is on page 30 of this report.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

*Funding Progress Schedule*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/ c)
06/30/10	\$15,615,546	\$18,635,853	\$3,020,307	83.7%	\$1,206,122	(250.4)%

The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2010. Additional information as of the latest actuarial valuation follows:

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	10-year period re-established each year; only one amortization base
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, are recognized over 5 year, but limited to 10% of the market value of assets
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	7.5%
Post-retirement	6.0%
Projected salary increases	6.0% compounded annually
Cost-of-living adjustments	6.0% compounded annually

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# Required Supplementary Information and Supporting Schedules

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Elected Officials' Retirement System  
City of Baltimore, Maryland  
Required Supplementary Information  
**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
6-30-01	\$ 14,254,563	\$ 10,935,055	\$ (3,319,508)	130.4 %	\$ 1,150,000	(288.7) %
6-30-02	13,097,706	12,809,826	(287,880)	102.2	1,150,000	(25.0)
6-30-03	13,086,386	13,670,218	583,832	95.7	1,150,000	50.8
6-30-04	14,854,343	14,709,287	(145,056)	101.0	1,150,000	(12.6)
6-30-05	15,182,550	14,447,285	(735,265)	105.1	963,000	(76.4)
6-30-06	15,940,948	13,546,610	(2,394,338)	117.7	958,000	(249.9)
6-30-07	17,524,104	14,189,037	(3,335,067)	123.5	863,000	(386.5)
6-30-08	18,272,591	16,953,276	(1,319,315)	107.8	1,142,000	(115.5)
6-30-09	14,160,551	16,956,537	2,795,986	83.5	1,182,300	(236.5)
6-30-10	15,615,546	18,635,853	3,020,307	83.7	1,206,122	(250.4)

Elected Officials' Retirement System  
City of Baltimore, Maryland  
Required Supplementary Information  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2001		N/A
2002	\$ 67,983	100
2003		N/A
2004	407,883	100
2005	575,760	100
2006	516,665	100
2007	381,524	100
2008	143,521	100
2009		N/A
2010	339,830	100

See notes to required supplementary information.



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2010. Additional information as of the latest actuarial valuation follows:

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	10-year period re-established each year; only one amortization base
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, phased-in at 20% each year, not to exceed 10% of the market value of assets
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	7.5%
Post-retirement	6.0%
Projected salary increases	6% compounded annually
Cost-of-living adjustments	6% compounded annually

2. The June 30, 2003 actuarial value of assets is less than the actuarial accrued liability due to unfavorable investment performance. Amortization of the unfunded actuarial liability causes employer contributions to increase by \$126,996, which represents 11% of the covered payroll. The Board of Trustees adopted a change in the mortality rate which decreased the June 30, 2003 unfunded liability by \$871,712 from the prior year.

3. As of June 30, 2008, the actuarial liability is less than the actuarial asset value as a result of deferred investment losses. The plan's funding position went from surplus of \$3,335,067 as of June 30, 2007 to a surplus of \$1,319,315 as of June 30, 2008.

The actuarial liability increased significantly as payroll growth and retiree cost of living adjustments that track payroll growth were greater than the 6% assumption.

The total recommended contribution increased from \$0 for fiscal year 2010 to \$339,830 for fiscal year 2010 primarily due to salary increases, cost of living adjustments being much higher than expected and the unfavorable investment returns.

Because this group is so small and subject to elected terms, the valuation results are expected to exhibit marked volatility from year to year.

4. The June 30, 2009 actuarial value of assets is less than the actuarial accrued liability due to payroll increase and cost of living adjustments for retirees and beneficiaries. Amortization of the unfunded actuarial liability causes employer contributions to increase from \$0 to \$339,830 which represents 81% of the covered payroll. The employer contribution for the June 30, 2009 actuarial valuation is made payable on July 1, 2010.

5. The employer's contributions increased from \$339,830 to \$957,220 for the fiscal year ending June 30, 2010 primarily due to demographic experience. The contributions are payable July 1, 2011.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**SCHEDULE OF INVESTMENT EXPENSES**  
**SCHEDULE OF PAYMENTS TO CONSULTANTS**  
For the Year Ended June 30, 2010

**Schedule of Administrative Expenses**

<b>Administrative expenses</b>	<b><u>Fees</u></b>
Actuarial fees	\$23,538
Audit fees	3,000
Legal Fees	100
Dues and membership fees	580
Retirement payroll processing	501
<b>Total administrative expenses</b>	<b><u>\$27,719</u></b>

**Schedule of Investment Expenses**

<b>Investment expenses</b>	<b><u>Fees</u></b>
Investment management fees	\$2,780
Investment advisor fees	1,000
Custodial fees	1,026
<b>Total investment expenses</b>	<b><u>\$4,806</u></b>

**Schedule of Payments to Consultants**

<b><u>Firm</u></b>	<b><u>Nature of Service</u></b>	<b><u>Fees</u></b>
Cheiron	Actuarial Services	\$23,538
Smith and Downey	Legal Fees	100
Baltimore City Department of Audits	Financial Audit	3,000
<b>Total payments to consultants</b>		<b><u>\$26,638</u></b>

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 43.

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# Investment Section





## INVESTMENT CONSULTANT'S REPORT

### Introduction

This report, prepared for the City of Baltimore Elected Officials' Retirement System (EOS) by Marquette Associates, Inc. is based on information supplied by the System's custodian, Mellon Bank, N.A (Mellon). Mellon provides Marquette Associates, Inc. with beginning and ending market values, cash flows, transactions, and positions for the EOS as well as each manager, where applicable. Mellon audits the information contained in its accounting reports monthly. Investment information is reported to the greatest degree possible in conformance with the presentation standards of Global Performance Investment Standards (GIPS) formerly known as AIMR.

On October 29, 2008, the City of Baltimore Elected Officials' Retirement System (EOS) retained Marquette Associates, Inc. as the full retainer investment consultant.

### Distinction of Responsibilities

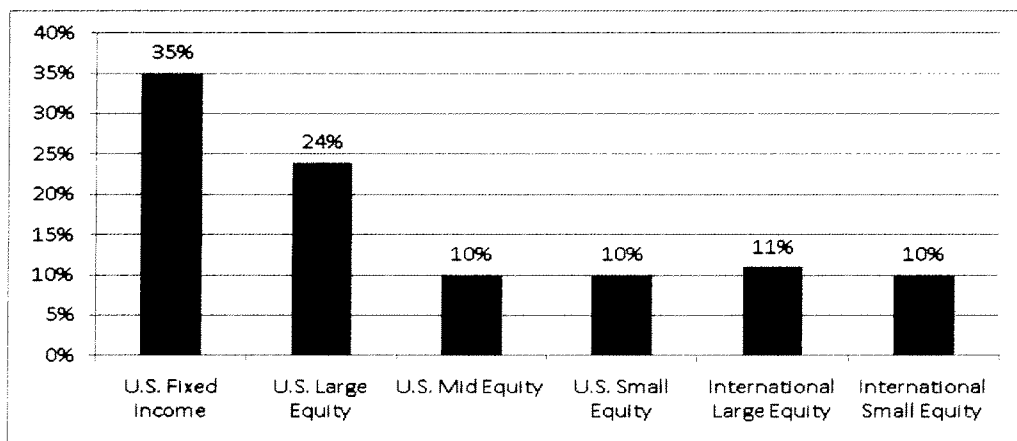
In recognition of the importance of prudent investment of System assets to both the City and the System's members, the Board, as primary fiduciary of the System, shall periodically review the asset management and actuarial characteristics of the System to ensure that investments are managed in a manner that is consistent with the retirement objectives of the System's members. These responsibilities are detailed in the Investment Guidelines.

The primary investment objectives of the System are to preserve the capital value of the System assets adjusted for inflation, to ensure adequate liquidity to meet benefit liabilities as they fall due, to meet the actuarial interest rate assumptions, and without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of System assets.

The investment managers appointed to execute the policy will invest EOS assets in accordance with the policy guidelines and with their judgment concerning relative investment values. In particular, the investment managers are accorded full discretion to: (1) select individual securities, (2) make periodic strategic adjustments to the mix of the common stock and fixed income securities, where applicable and (3) diversify their portfolios.

### Investment Asset Allocation Structure

The System reviewed and approved the asset allocation structure in May of 2009 in an effort to enhance the risk adjusted return characteristics over the long term. The new asset allocation structure was fully implemented on June 30, 2010. The goal of the new asset allocation structure is to provide a favorable rate of return coupled with a prudent level of risk. Diversification of asset classes is critical to achieve long term return objectives while reducing risk. The following table outlines the EOS's investment policies that shall be effective upon implementation of the new asset allocation:



The new asset allocation structure further diversified the domestic and international equity asset classes. In domestic equity, the new asset allocation has exposure to large, mid and small-cap equity. In international equity, the new asset allocation has exposure to large and small equity and emerging markets. The Trustees have employed both active and passive investment strategies to obtain the desired asset allocation mix in the most cost effective and efficient manner.

### **Investment Objective**

The EOS's investment objective is to outperform the return of a policy portfolio consisting of 44% Russell 3000, 21% MSCI ACWI ex US, and 35% Barclays Capital Aggregate. In addition, the EOS's performance is evaluated relative to the Wilshire Public Fund Universe, a universe representing the performance of 216 Public Funds. Marquette utilizes the Wilshire co-operative database, a diverse collection of information from over 60 different investment consulting firms located throughout the United States. The Universe statistics consist of over 1,600 total funds and several thousand individual portfolios. In addition, each individual manager portfolio is evaluated against the appropriate peer group (style) universe.

### **Market Overview**

Beginning in March of 2009, the stock market began to rebound from the lows generated in the financial crisis that culminated in the fall of 2008. This upward trend in both stock and fixed income securities resulted in a solidly positive one year return ended June 30, 2010. The best performing securities in both the stock and bond market were those that had higher risk profiles and fell the furthest in the prior period. Most alternative asset classes lagged the traditional publicly traded markets which was consistent with historical trends following a recession. The domestic stock market as proxied by the Russell 3000 Index returned 15.7%, the international stock market as proxied by the MSCI All Country World ex-US Index returned 10.9%, and domestic fixed income as proxied by the Barclays Capital Aggregate Index returned 9.5%.

### **Investment Performance**

For the fiscal year ended June 30, 2010, the EOS's rate of return as positively impacted by upward trending markets posted a 12.9% return and performed in-line with the policy benchmark, which returned 13.1%. The return outpaced the median public pension fund by 1.2%. The diversification of the domestic equity portfolio with a greater emphasis into mid and small-cap stocks added value to performance as well as an exposure to emerging markets in the international portfolio.

The market value of the EOS assets ended the 2010 fiscal year with \$14.2 million in total assets, which was an increase of \$1.3 million from the prior fiscal year end. At the end of fiscal year 2010, the System's assets were allocated as follows:

	Market Value (in millions)	Percent of Total	Fiscal Year Rate of Return	
			EOS	Benchmark
U.S. Equity	\$6.2	43.6%	18.1%	15.7%
International Equity	2.8	20.0%	9.5%	10.9%
U.S. Fixed Income	5.2	36.3%	9.5%	9.5%
Cash Equivalents	0.0	0.1%	---	---
Total Fund	\$14.2	100.0%	12.9%	13.1%



Nichole Roman-Bhaty  
Managing Partner  
Marquette Associates, Inc.



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES**

**Investment Objectives**

The primary investment objectives of the Elected Officials' Retirement System (the Plan) are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the investment objectives are given in descending order of priority:

1. To preserve the capital value of the Plan adjusted for inflation;
2. To ensure adequate Plan liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

**General Investment Policy**

The Elected Officials' Retirement System must comply with investment restrictions imposed by the laws of the City of Baltimore and any other State or Federal laws dealing with investment of public retirement plan assets. The Plan investment managers are expected to familiarize themselves with these laws.

Investment policy for the Plan relates to the portfolio of all assets which comprise the total holdings of the Plan. The Board of Trustees (Board) recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the Plan, as well as, to maximize earnings of the Plan consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary and its investment advisor. Investment policy and the long-term average allocation of Plan assets to which they refer are deemed to be consistent with the projected pattern of cash flows to the Plan and its projected benefit payments. Should the projected finances of the Plan change significantly, the applicable Federal or State statutes be amended, or changes in the Plan's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by the action of the Board, if appropriate.

In general, the Board recognizes that large pools of assets must be diversified over different asset classifications in order to reduce risk. The following asset allocation has been established as an overall objective for the total holdings of the Plan:

% of Total Assets at Market Value	
<u>Asset Category</u>	<u>Target</u>
U.S. Fixed Income	35%
U.S. Large Equity	24%
U.S. Mid Equity	10%
U.S. Small Equity	10%
International Large Equity	11%
International Small Equity	10%
Total	<u>100%</u>

**OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES (continued)**

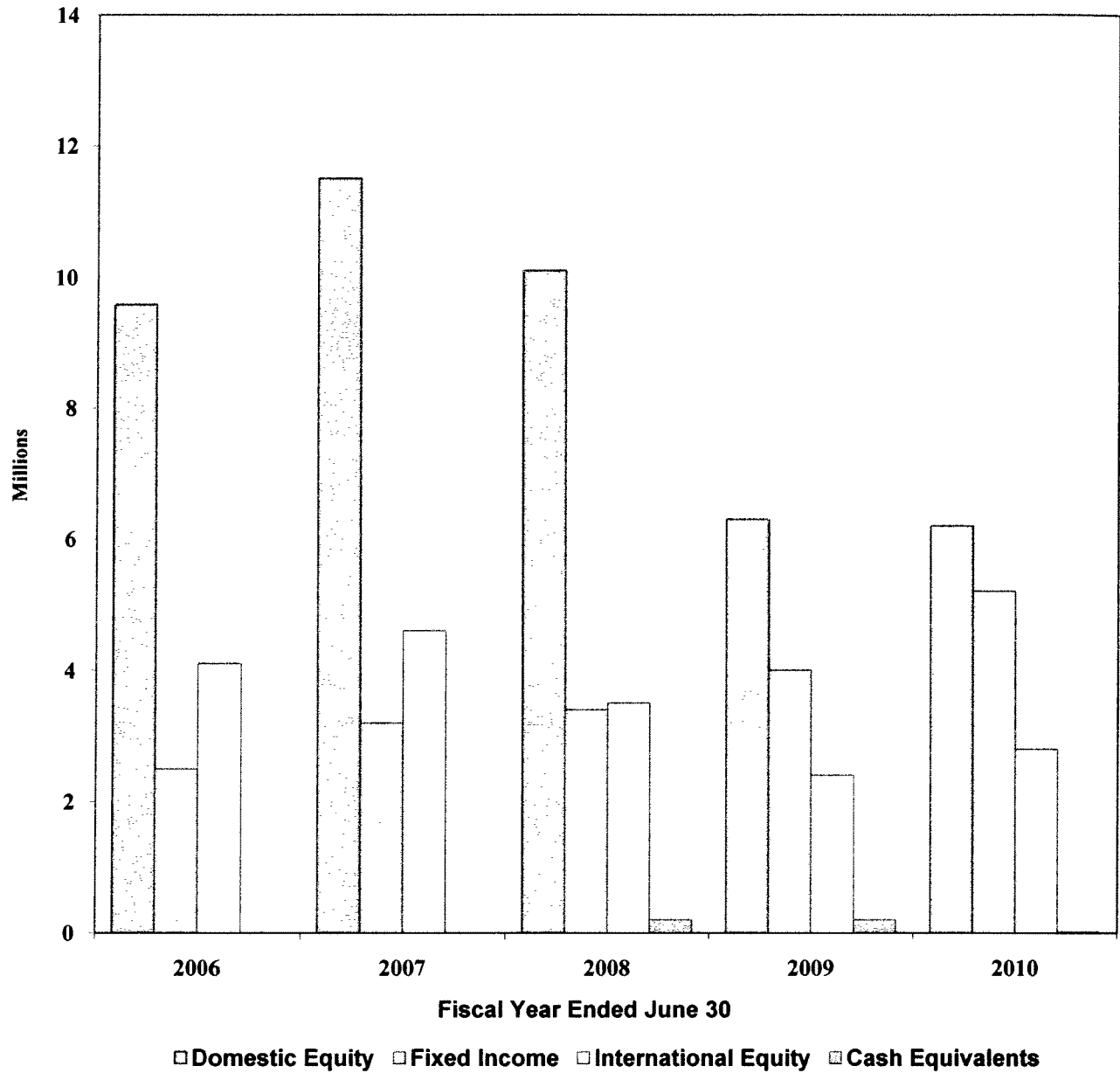
Within each major security classification, investments should be diversified and excessive concentration in any particular security, company or industry is to be avoided. Detailed guidelines in this regard have been supplied to the Plan's investment managers. Subject to these objectives and guidelines, and the Plan's laws referenced herein, the investment managers shall have full discretion in investment decisions. Managers are advised to notify the Board in writing if these objectives cannot be met or if the guidelines constrict performance, and are encouraged to suggest changes in these guidelines at any time.

**Proxy Voting**

Pursuant to a U.S. Department of Labor directive, the Board of Trustees have a long standing policy that, when solicitations of proxies with respect to securities are received by an investment manager, the decisions as to whether and how to vote such proxies are delegated to that investment manager.

The Board also recognizes, however, that the investment manager's decisions must be made in accordance with applicable legal standards and that the Board has an obligation to ensure that those standards are being observed. Therefore, the Board requests that annually (June 30) each management firm furnish the Plan with a written statement of their policy and practices with respect to the voting of securities held in their employee benefit plan asset portfolios, together with their written assurance that such policies and practices are being followed. These statements and assurances will be included, and will be given appropriate weight, in the Board's continuing evaluation of each manager's overall investment performance.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**PORTFOLIO COMPOSITION**  
**MARKET VALUE OF INVESTMENTS**



(amounts expressed in millions)

	2006			2007			2008			2009			2010		
Domestic Equity	\$	9.6	60%	\$	11.5	60%	\$	10.1	59%	\$	6.3	48.8%	\$	6.2	43.7%
Fixed Income		2.5	17		3.2	16		3.4	20		4.0	31.0		5.2	36.6
International Equity		4.1	23		4.6	24		3.5	20		2.4	18.6		2.8	19.7
Cash Equivalents								0.2	1		0.2	1.6			
Total	\$	16.2	100%	\$	19.3	100%	\$	17.2	100%	\$	12.9	100%	\$	14.2	100%

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**TIME WEIGHTED RATE OF RETURN, CURRENT VALUE BASIS**

	<u>FY 2010</u>	<u>Annualized</u> <u>3 Years</u>	<u>5 Years</u>
<b>TOTAL PORTFOLIO</b>	<b>12.9%</b>	<b>( 6.6)%</b>	<b>1.6%</b>
Policy Benchmark	14.2	( 4.3)	2.4
<b>DOMESTIC EQUITIES</b>	9.5	N/A	N/A
Russell 3000	9.5	7.6	5.5
<b>FIXED INCOME</b>	18.1	N/A	N/A
BarCap Aggregate	15.7	( 9.5)	( 0.5)
<b>INTERNATIONAL EQUITIES</b>	9.5	N/A	N/A
MSCI ACWI ex-US	10.9	(10.3)	3.8

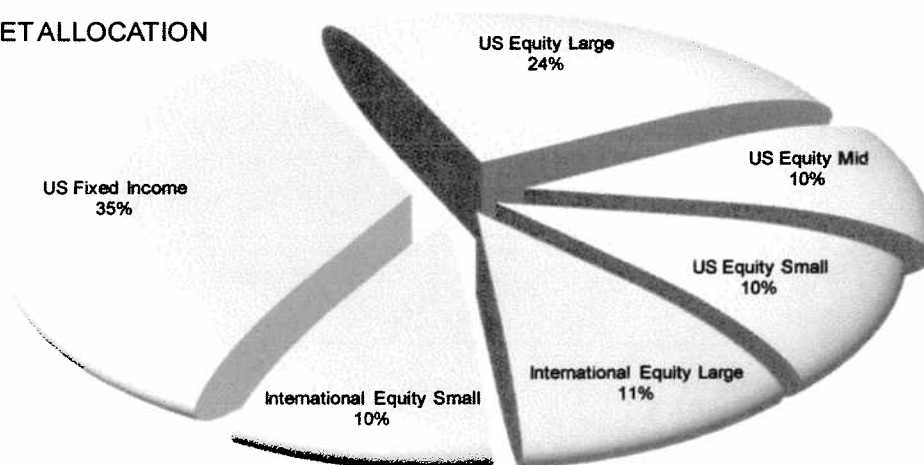
*Note:*

The calculations above were prepared by the Employees' Retirement System's investment advisor, Marquette Associates, using a time weighted rate of return, based on market value.

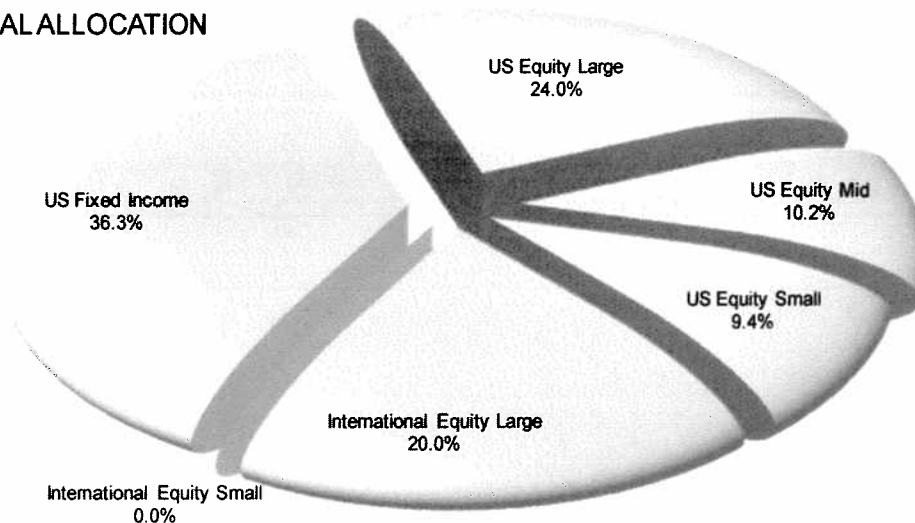
The Policy Benchmark is 35% BarCap Aggregate, 24% Russell 1000, 10% S&P Mid-Cap 400, 10% Russell 2000, and 21% MSCI ACWI ex US. The Policy Benchmark prior to August 31, 2009 was 30% BarCap Aggregate, 49% Russell 3000, and 21% MSCI EAFE.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS**  
June 30, 2010

TARGET ALLOCATION



ACTUAL ALLOCATION



**Note:** For asset allocation purposes, only actively managed accounts are included. Assets in the commingled funds are allocated between domestic equity and domestic fixed income based on the percentage held by the investment managers at June 30, 2010. Assets in the cash reserve are also excluded from this illustration. These assets are for the purpose of providing cash for the payment of benefit and administrative expenses.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY SCHEDULE OF FEES AND COMMISSIONS**  
**INVESTMENT SUMMARY**  
For the Year Ended June 30, 2010

**Summary Schedule of Fees and Commissions**

	<b><u>Assets Under Management</u></b>	<b><u>Fees</u></b>
<b>Investment manager fees:</b>	<u>\$14,183,202</u>	<u>\$2,780</u>
<b>Other investment service fees:</b>		
Custodial fees		1,026
Investment advisor fees		<u>1,000</u>
<b>Total other investment service fees</b>		<u>2,026</u>
<b>Total investment service fees</b>		<u><u>\$4,806</u></u>

Note: No broker fees are reported due to the nature of the investments of the EOS.

**Brokerage Commissions**

Because of the highly visible nature of the Elected Officials' Retirement System, it is important that the investment managers have as a primary objective to obtain the best execution in all investment transactions. While the managers are permitted to direct a portion of brokerage commissions for research, it is expected that each manager will receive commission discounts which are commensurate with current discount practice. Investment managers are expected to give first preference whenever possible to brokerage firms with offices located in the Baltimore City Metropolitan Area. However, the managers are expected to negotiate commission rates, and local brokerage firms should be given preference only when commission rates and transaction services are competitive with those available from other firms.

**Investment Summary**

<b>Investments:</b>	<b><u>Market Value</u></b>	<b><u>Percent of Market Value</u></b>
Domestic Equity	\$5,151,812	36%
Fixed Income	6,186,396	44%
International Equity	<u>2,844,994</u>	<u>20%</u>
<b>Total Investments</b>	<u><u>\$14,183,202</u></u>	<u><u>100%</u></u>



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**INVESTMENT PROFESSIONALS**

**INVESTMENT ADVISOR**

Marquette Associates, Inc.  
Nichole Roman-Bhatty  
Chicago, Illinois

**TACTICAL ASSET ALLOCATION  
INVESTMENT MANAGER**

Mellon Capital Management Corp.  
Gregory Kolling  
Pittsburgh, Pennsylvania

**CASH MANAGEMENT**

Cash Investment Strategies  
Beth Stone, CFA  
Pittsburgh, Pennsylvania

**CUSTODIAN BANK**

BNY Mellon Asset Servicing  
Arlene C. Sefcik  
Pittsburgh, Pennsylvania

# Actuarial Section

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Board of Trustees  
Elected Officials' Retirement System  
7 East Redwood Street, 12th Floor  
Baltimore, Maryland 21202

December 8, 2010

Honorable Members of the Board of Trustees:

Cheiron, Inc. performs an actuarial valuation of the System at the end of each fiscal year. The most recent valuation was as of June 30, 2010, and it determined the employer's contribution for the plan year beginning July 1, 2010. The contribution is determined for the following year and therefore it is our understanding the contribution plus interest will be made during the 2012 fiscal year.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. This method tends to produce a level normal cost (portion of the contribution) as a percentage of covered payroll as long as the average age of active members does not change. The employer's contribution is increased or decreased to amortize over 10 years the difference between the actuarial value of assets and the actuarial accrued liability. Contributions have not consistently reflected level percent of pay because of: volatility in the investment returns of the System; differences between actual and assumed pay increases; purchases of prior service credit; and Sensitivity to elected officials terms of office. The annual recommended contributions have varied from 0% to 81% of covered payroll.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board Statement No. 25. The spread between the interest rate and the salary scale recommended by the actuary has been incorporated into Article 22 of the Baltimore City Code. A review of the actuarial assumptions was completed in 2007 by Cheiron with minor changes incorporated in the June 30, 2007 valuation. Through the June 30, 2006 valuation there have been no material changes in the actuarial assumptions.

The valuation is based on a closed group of members; no new hires are assumed. The actuarial value of assets equals the market value, adjusted for investment performance above or below the assumed rate of return. Such gains or losses are recognized over a five-year period. The unrecognized gain or loss is limited to 10% of the market value of assets. Membership data used for the actuarial valuation is supplied by the Retirement System.

The data is examined by us for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis. All supporting schedules in the Actuarial Section and the Schedule of Funding Progress in the Financial Section have been prepared by the System and reviewed by us. We meet the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter and the actuarial valuation report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,  
Cheiron

Kenneth Kent, FSA, FCA  
Consulting Actuary

Margaret Tempkin, FSA  
Consulting Actuary



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

**Actuarial Funding Method**

Method of Funding: Liabilities and contributions shown in this report are computed using the Projected Unit Credit method of funding. The Plan's normal cost is the present value of the benefit deemed to accrue in the plan year less the amount of anticipated employee contributions, if applicable. The current Unfunded Actuarial Liability is amortized over 10 years. This 10-year period is restarted each year. The Trustees can elect to change this period.

Asset Valuation: The actuarial value of assets is equal to market value plus accrued contributions minus/plus the unrecognized gain/loss as of the valuation date. Each year's gain/loss are recognized over 5 years. Investment gains/losses are defined as earnings in excess of 7.5% of the value of the Pension Accumulation Fund at the beginning of the year. The absolute value of the total unrecognized gain/loss is limited to not more or less than 10% of the market value of assets.

**Actuarial Assumptions**

Interest: 7.5% compounded.

Expenses: Expenses are paid from the funds except investment management expenses that are paid from investment earnings. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

Salary Scale: Salary increases are assumed to be 6% compounded annually.

Additional Assumptions:	Inflation:	4.0%
	Post Retirement Increase:	6% compounded annually.
	Pre-retirement Mortality:	None
	Withdrawal:	None
	Retirement Age:	The later of (i) completion of current term or, (ii) end of term when first eligible for retirement (16 years of service or age 50 with 12 years of service).
	Percentage Married:	Males: 80%; Females: 80%
	Spouse Age:	A husband is assumed to be 4 years older than his wife.
	New Entrants:	No future entrants are assumed.
	Election Year:	The next election year is assumed to occur in 2011. Elections are then assumed to be held every four years thereafter.

Elected Officials' Retirement System

City of Baltimore, Maryland

**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS (continued)**

Sample rates for all mortality, morbidity and retirement decrements for active members are as follows:

<u>Age</u>	<u>Withdrawal</u>	<u>Non-Line- of-Duty Disability</u>	<u>Line- of-Duty Disability</u>
25	0	0.0008	0.0002
30	0	0.0008	0.0002
35	0	0.0012	0.0002
40	0	0.0023	0.0003
45	0	0.0035	0.0005
50	0	0.0057	0.0005
55	0	0.0080	0.0008
60	1	0.0013	0.0012
65	0	0.0014	0.0014
69	0	0.0015	0.0015

Mortality rates for retired and disabled members and beneficiaries are as follows:

<u>Age</u>	<u>Retirees and Beneficiaries</u>		<u>Disabled Members</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	0.007337	0.002711	0.009158	0.009158
60	0.013474	0.005421	0.015592	0.015592
65	0.022717	0.010319	0.027530	0.027530
70	0.035528	0.015919	0.044597	0.044597
75	0.058402	0.026798	0.074070	0.074070
80	0.094445	0.046602	0.114836	0.114836

1994 Uninsured Pensioners Generational Mortality table (Male + 4, Female + 1) with generational projection using 50% of the AA scale projected to 2016.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Date</u>	<u>Number of Members</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
6/30/2001	21	\$1,150,000	\$54,762	
6/30/2002	21	1,150,000	54,762	
6/30/2003	21	1,150,000	54,762	
6/30/2004	21	1,150,000	54,762	
6/30/2005	17	958,000	56,353	2.9%
6/30/2006	17	958,000	56,353	
6/30/2007	15	863,000	57,533	2.1
6/30/2008	17	1,142,000	67,176	16.8
6/30/2009	17	1,182,300	69,547	3.5
6/30/2010	17	1,206,122	70,948	2.0

Elected Officials' Retirement System  
City of Baltimore, Maryland

**SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS**

<u>Year Ended</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		<u>% Increase / (Decrease) Annual Allowances</u>	<u>Average Annual Allowances</u>
	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>		
6/30/2001	2	\$ 51,325	1	\$ 36,356	16	\$ 494,248	3.1%	\$ 30,891
6/30/2002					16	494,248		30,891
6/30/2003	1	40,290	1	80,580	16	453,958	(8.2)	28,372
6/30/2004					16	453,958		28,372
6/30/2005	3	63,623	1	27,923	18	489,658	7.9	27,203
6/30/2006					18	489,658		27,203
6/30/2007	1	28,735			19	518,393	2.9	26,527
6/30/2008 *	1	59,196			20	677,136	34.3	33,857
6/30/2009 *	1	17,094			21	685,848	2.5	33,059
6/30/2010 *	1	99,872			22	814,299	17.3	37,014

\* Includes post-retirement increases.



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SOLVENCY TEST**

The Elected Officials' Retirement System's funding objective is to meet long-term benefit promises through contributions which spread the cost over the employees' service base. If the contributions to the System are soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness.

A short-term solvency test is one means of examining a System's progress under its funding program. In a short-term solvency test, the Plan's present assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for future benefits to terminated vested members; and 4) The liabilities for service already rendered by active members. In a system which has been following the discipline of allocating cost on a consistent basis to valuation years, the liabilities for active member contributions on deposit (liability 1), the liabilities for future benefits to present retired lives (liability 2), and the liabilities for future benefits to terminated vested members (liability 3) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 4) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 4 will increase over time. Liability 4 being fully funded is rare.

The schedule below illustrates the System's history of liabilities 1 through 4.

Valuation Date	Aggregate Accrued Liabilities For:				Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets			
	(1)	(2)	(3)	(4)		(1)	(2)	(3)	(4)
	Active Member Contributions	Retirees and Beneficiaries	Terminated Vested Members	Active Members (Employer Financed Portion)					
6/30/2001	\$ 440,920	\$ 7,391,062		\$ 3,103,073	\$ 14,254,563	100	%		207.0
6/30/2002	516,581	8,320,957		3,972,288	13,097,706	100	100		107.2
6/30/2003	603,485	8,357,322		4,709,411	13,086,386	100	100		87.6
6/30/2004	697,485	8,461,667		5,550,135	14,854,343	100	100		102.6
6/30/2005	619,494	8,550,774		5,277,017	15,182,550	100	100		113.9
6/30/2006	701,887	7,135,209		5,709,514	15,940,948	100	100		141.9
6/30/2007	633,314	7,156,086	\$ 1,126,466	5,273,171	17,524,104	100	100	100	163.2
6/30/2008	660,277	10,406,449	337,457	5,549,093	18,272,591	100	100	100	123.8
6/30/2009	750,094	9,488,629	312,704	6,405,110	14,160,551	100	100	100	56.3
6/30/2010	733,536	11,658,750	317,461	5,926,106	15,615,546	100	100	100	49.0

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**ANALYSIS OF FINANCIAL EXPERIENCE**

**Gains and Losses in Accrued Liabilities During Fiscal Year  
Resulting from Differences Between Assumed Experience and Actual Experience**

<u>Type of Activity</u>	<u>Gain or (Loss) for Year 2009</u>	<u>Gain or (Loss) for Year 2010</u>
<b>Age and Service Retirements</b>		\$ (83,603)
If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss.		
<b>Disability Retirements</b>	\$ 5,851	2,570
If disability claims are less than assumed, there is a gain. If more claims, a loss.		
<b>Death-in-Service Benefits</b>		
If survivor claims are less than assumed, there is a gain. If more claims, a loss.		
<b>Withdrawal From Employment</b>		
If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.		
<b>Pay Increases</b>	1,285,039	(314,262)
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.		
<b>Investment Income</b>	(4,920,025)	740,009
If there is greater investment income than assumed, there is a gain. If less, a loss.		
<b>Death After Retirement</b>	(230,509)	(222,174)
If retirees live longer than assumed, there is a loss. If not as long, a gain.		
<b>New Entrants</b>		(4,265)
New entrants create a loss because they were not assumed in the previous evaluation.		
<b>Other</b>		
Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.		
<b>Losses During Year From Financial Experience</b>	<u>\$ (3,859,644)</u>	<u>\$ 118,276</u>

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
June 30, 2010

1. **EFFECTIVE DATE:**

The Elected Officials' Retirement System (EOS) was established by City Ordinance effective December 5, 1983, and has been amended periodically.

2. **MEMBERSHIP AND SERVICE CREDIT:**

- (A) An elected official, who is not a member of the Employees' Retirement System of the City of Baltimore, automatically becomes a member of the EOS upon taking the oath of office.
- (B) An elected official, who is a member of the Employees' Retirement System of the City of Baltimore, has the option within 120 days of taking the oath of office, to become a member of the EOS.
- (C) Provided a claim is filed with the Board of Trustees within six months after becoming a member, the member is eligible to receive credit for all previous service as an elected official of Baltimore City, as a member of a Maryland State retirement system, or as a member of a Baltimore City retirement system.

3. **CONTINUED MEMBERSHIP:**

A member of the EOS has the option to continue membership in the System following his leaving office or the end of the term of office for which he was last elected, provided he continues to contribute both the employer and member contributions.

4. **MEMBER CONTRIBUTIONS:**

Members are required to contribute 5% of their salary. However, no contributions shall be made after the member has attained age 60 and has acquired 35 years of service credit in the EOS.

If a member transfers prior City service or State service, he must pay the equivalent of such past member contributions.

5. **MILITARY SERVICE CREDIT:**

- (A) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided:
  - (1) the member retires; and
  - (2) benefits due to military service credit have not been or will not be received from any other retirement system, except social security benefits and certain military benefits.
- (B) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, shall receive service for the period of absence as provided by the Veterans' Re-employment Rights Act and the Uniformed Services Employment and Reemployment Rights Act of 1994.

6. **SERVICE RETIREMENT:**

- (A) **Eligibility Requirements:**
  - (1) Acquired 12 or more years of service and attained age 50; or
  - (2) Acquired 16 years of service, regardless of age.
- (B) **Benefit Amount:** An annual maximum service allowance equaling 2.5% of the current annual earnable compensation of the position held by the member multiplied by the number of years of the member's service credit. The allowance will consist of:

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
June 30, 2010

- (1) an annuity equal to the actuarial equivalent of the member's accumulated contributions at the time of retirement; and
- (2) a pension, equal to the maximum allowance less the annuity described in (1) above.

**7. NON-LINE-OF-DUTY DISABILITY RETIREMENT BENEFIT:**

- (A) **Eligibility Requirements:** Five years of service, and determination by a hearing examiner to be mentally or physically incapacitated for the performance of duties as an elected official, and that such incapacity is likely to be permanent.
- (B) **Benefit Amount:** An annual maximum retirement allowance equal to the greater of:
  - (1) the member's annual maximum service retirement allowance; or
  - (2) a retirement allowance totaling 25% of the member's current annual earnable compensation.
- (C) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation received on account of the same disability.

**8. LINE-OF-DUTY DISABILITY BENEFIT:**

- (A) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determination by a hearing examiner to be totally and permanently incapacitated for the further performance of duty, and the incapacity resulted from an accident occurring while in the actual performance of such duty at definite time and place without willful negligence.
- (B) **Benefit Amount:** An annual maximum retirement allowance consisting of:
  - (1) an annuity equal to the actuarial equivalent of the member's accumulated contributions; plus
  - (2) a pension equaling 66.667% of the member's current annual earnable compensation.
- (C) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation received on account of the same disability.

**9. DEFERRED VESTED RETIREMENT BENEFIT:**

- (A) **Eligibility Requirements:** A member who has:
  - (1) Acquired 12 or more years of service, but less than 16 years of service, and
  - (2) Left office and has not attained age 50; and
  - (3) Elected to leave his or her accumulated contributions with the System.
- (B) **Benefit Amount:** Upon attaining age 50, the member is entitled to receive an annual maximum service allowance equaling 2.5% of the member's current annual earnable compensation multiplied by the number of years of the member's service credit. The allowance will consist of:
  - (1) an annuity equal to the actuarial equivalent of the member's accumulated contributions at the time of retirement; and
  - (2) a pension, equal to the maximum service allowance less the annuity described in (1) above.

**10. MAXIMUM ALLOWANCE AND OPTIONAL METHODS OF RECEIVING BENEFIT PAYMENTS:**

- (A) **Maximum Allowance:** Upon retiree's death, 40% of retiree's maximum allowance to unmarried spouse or dependent children until the last dies or attains age 18 (age 22 if full time student). All other options result in a lesser amount paid.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
June 30, 2010

- (B) **Reserve Guarantee Option:** Upon retiree's death, cash refund to retiree's designated beneficiary based on present value of allowance at retirement less payments made.
- (C) **100% Joint and Survivor Option:** Upon retiree's death, 100% of member's allowance to continue to designated beneficiary.
- (D) **50% Joint and Survivor Option:** Upon retiree's death, 50% of member's allowance to continue to designated beneficiary.
- (E) **100% Joint and Survivor "Pop-Up" Option:** Upon retiree's death, 100% of member's allowance continues to the designated beneficiary. However, should the designated beneficiary predecease the retired member, the retiree immediately begins to receive the maximum retirement allowance; the retiree may not designate another beneficiary and no survivorship benefits are paid on the death of the retiree.
- (F) **50% Joint and Survivor "Pop-Up" Option:** Upon retiree's death, 50% of member's allowance continues to the designated beneficiary. However, should the designated beneficiary predecease the retired member, the retiree immediately begins to receive the maximum retirement allowance; the retiree may not designate another beneficiary and no survivorship benefits are paid on the death of the retiree.
- (G) **Specific Benefit Option:** Upon the retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:
  - (1) a specific lump sum amount; or
  - (2) a specific periodic allowance.

These options are available for service, non-line of duty disability, and line-of-duty disability retirement. Within 30 days after retirement, the retired member may change any option and/or the designated beneficiary.

**11. NON-LINE-OF-DUTY DEATH BENEFIT:**

- (A) **Eligibility Requirements:**
  - (1) Member dies while serving as an elected official for Baltimore City; or
  - (2) Retiree dies within 30 days after retiring on account of service, non-line-of-duty disability, or line-of-duty disability; or
  - (3) Retiree who postpones receipt of a retirement allowance until reaching age 50 and dies within 30 days after reaching age 50.
- (B) **Benefit Amount:**
  - (1) **100% Joint and Survivor benefit:**  
Provided the member was eligible for a service retirement at the time of death, the 100% Joint and Survivor Option shall be paid to:
    - (a) The member's designated beneficiary spouse to whom the member was married for at least one year immediately prior to the date of death; or
    - (b) The member's parent(s).
  - (2) **Lump Sum Benefit:**  
If not eligible under (1) above, a lump sum benefit consisting of the member's accumulated contributions, and if the member has acquired more than one year of service, 50% of the member's current annual earnable compensation, payable to:
    - (a) the member's designated beneficiary; or
    - (b) a beneficiary as specified by the plan provisions.
- (C) **Offset to Retirement Allowance:** This benefit is offset by:
  - (1) workers' compensation received on account of the same disability or death; and
  - (2) any allowance paid by this System and received by the retired member or former member before the date of death.

**12. LINE-OF-DUTY DEATH BENEFIT:**

**(A) Eligibility Requirements:**

- (1) A determination by a hearing examiner, that the member's death occurred from the natural and proximate result of the actual performance of duty and without willful negligence on the part of the member; or
- (2) A member has been granted a line-of-duty disability and dies from injuries that caused or contributed to the member being awarded the line-of-duty disability.

**(B) Benefit Amount:** The benefit consists of:

- (1) a refund of the member's accumulated contributions and interest payable to the member's designated beneficiary or the beneficiary specified by the plan provisions; and
- (2) an annual pension of 100% of the member's current annual earnable compensation payable to:
  - (a) the member's surviving spouse, to continue for life or remarriage;
  - (b) if there is no surviving spouse, or if the spouse dies or remarries, then to the member's child or children, equally, until age 18 (age 22 if a full-time student); or
  - (c) if there is no surviving spouse or minor child surviving, then to the member's dependent father and mother, who are designated beneficiaries, to continue for life, in the percentages designated by the member.

- (C) Offset to Retirement Allowance:** This benefit is offset by workers' compensation received on account of the same disability or death.

**13. CURRENT ANNUAL EARNABLE COMPENSATION AND POST-RETIREMENT BENEFIT INCREASES:**

Retirement allowances are based upon the current annual earnable compensation authorized for that elected position and shall include any future increases occurring after the retirement of the official, which shall, after retirement, index benefits paid under the EOS subject to applicable reduction for any optional retirement allowance selection.

**14. REFUND OF MEMBER CONTRIBUTIONS:**

The member upon leaving office for any reason is entitled to a refund of the member's accumulated contributions and interest, if not eligible for any other benefits.

**15. FORFEITURE OF BENEFITS:**

If a member should be convicted of a job-related offense committed in the performance of his duties as an elected official of the City of Baltimore and committed against the City of Baltimore, no benefits provided by the EOS shall be paid to the member or his beneficiary. If the member or his beneficiary is receiving any benefits at the time of conviction, all benefit payments will cease. The member or his beneficiary shall only be entitled to the return of the member's accumulated contributions and interest less any benefit payments made.

# Statistical Section

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Elected Officials' Retirement System  
City of Baltimore, Maryland  
**STATISTICAL SECTION SUMMARY**

The statistical section of the Elected Officials' Retirement System's (System) comprehensive annual financial report presents detailed information as a context for helping the reader understanding what the information in the financial statements, notes disclosures, required supplementary information and the System's overall financial health for the last ten fiscal years. The information presented in this section is listed below.

### **Financial Trends**

Plan Net Assets and Changes of Plan Net Assets schedules detail the System's financial performance from year to year.

#### **Revenue Capacity**

The Revenue by Source schedule list the different income streams of the System.

#### **Expenses Capacity**

The Expense by Type schedules contains information about the major costs of the System.

### **Demographic Information**

The demographic schedules consist of various membership information used by the Actuary to determine or monitor the demographic assumptions. The tables which are used to compare current assumptions with actual experience to determine recommended assumption changes include:

- The Schedule of Active Members by Years of Service, which provides active membership information including the average service credit and member's age for each fiscal year;
- The Schedule of Retirees by Attained Age and Type of Retirement, provides the number of retirees by age and the type of retirement, and
- The Schedule of Beneficiaries By attained Age and Type of Retirement that provides membership information on beneficiaries by age and type of the member's retirement.

**Benefit Expenses by Type:** is a report of benefit related expenses by the type of retirement and payment for each year of service.

**Average Monthly Benefit Payments:** is a schedule of monthly benefit payments based on years of credited service. For each year, the schedule provides the average monthly benefit payment, Average – average Final Compensation and number of retirees grouped in years of credited service.



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**Statement of Changes in Plan Net Assets**  
For the Last Ten Fiscal Years

	2001	2002	2003	2004	2005
<b>Additions</b>					
Contributions					
Employer		\$ 67,983		\$ 407,883	\$ 575,760
Plan members	\$ 58,109	57,866	\$ 56,968	59,198	50,494
Total contributions	<u>58,109</u>	<u>125,849</u>	<u>56,968</u>	<u>467,081</u>	<u>626,254</u>
Investment Income					
Net appreciation in fair value of investments	(1,119,178)	(1,563,645)	(144,676)	1,381,519	1,206,618
Interest, dividends, and real estate income	563,103	385,049	233,712	346,112	65,903
Less: investment expenses	(19,381)	(19,404)	(20,239)	(27,464)	(11,949)
Net investment income	<u>(575,456)</u>	<u>(1,198,000)</u>	<u>68,797</u>	<u>1,700,167</u>	<u>1,260,572</u>
Total additions	<u>(517,347)</u>	<u>(1,072,151)</u>	<u>125,765</u>	<u>2,167,248</u>	<u>1,886,826</u>
<b>Deductions</b>					
Retirement allowances	485,920	495,606	477,785	456,453	475,651
Administrative expenses	27,074	17,352	28,666	15,412	29,239
Death Benefits	268	31,707			35,606
Refund of Contributions					
Total deductions	<u>513,262</u>	<u>544,665</u>	<u>506,451</u>	<u>471,865</u>	<u>540,496</u>
Net increase(decrease)	<u>(1,030,609)</u>	<u>(1,616,816)</u>	<u>(380,686)</u>	<u>1,695,383</u>	<u>1,346,330</u>
<b>Net assets held in trust for pension benefits</b>					
Beginning Balance	<u>14,553,385</u>	<u>13,522,776</u>	<u>11,905,960</u>	<u>11,525,274</u>	<u>13,220,657</u>
Ending Balance	<u>13,522,776</u>	<u>11,905,960</u>	<u>11,525,274</u>	<u>13,220,657</u>	<u>14,566,987</u>

Elected Officials' Retirement System  
City of Baltimore, Maryland

**Statement of Changes in Plan Net Assets (continued)**  
For the Last Ten Fiscal Years

	2006	2007	2008	2009	2010
<b>Additions</b>					
Contributions					
Employer	\$ 516,665	\$ 381,524	\$ 143,521	\$ 58,617	\$ 339,830
Plan members	47,951	46,197	103,757	58,617	59,358
Total contributions	<u>564,616</u>	<u>427,721</u>	<u>247,278</u>	<u>58,617</u>	<u>399,188</u>
Investment Income					
Net appreciation in fair value of investments	1,718,330	3,075,073	(1,588,540)	(3,656,082)	1,691,314
Interest, dividends, and real estate income	15,204	29,617	25,680	2,030	352
Less: investment expenses	<u>(12,149)</u>	<u>(24,959)</u>	<u>(25,160)</u>	<u>(19,314)</u>	<u>(4,806)</u>
Net investment income	<u>1,721,385</u>	<u>3,079,731</u>	<u>(1,588,020)</u>	<u>(3,673,366)</u>	<u>1,686,860</u>
Total additions	<u>2,286,001</u>	<u>3,507,452</u>	<u>(1,340,742)</u>	<u>(3,614,749)</u>	<u>2,086,048</u>
<b>Deductions</b>					
Retirement allowances	491,003	501,041	689,232	685,848	736,426
Administrative expenses	30,837	25,800	25,618	30,849	27,719
Death Benefits					
Refund of Contributions			24,193	27,298	
Total deductions	<u>521,840</u>	<u>526,841</u>	<u>739,043</u>	<u>743,995</u>	<u>764,145</u>
Net increase(decrease)	1,764,161	2,980,611	(2,079,785)	(4,358,744)	1,321,903
<b>Net assets held in trust for pension benefits</b>					
Beginning Balance	<u>14,566,987</u>	<u>16,331,148</u>	<u>19,311,759</u>	<u>17,231,974</u>	<u>12,873,230</u>
Ending Balance	<u>\$ 16,331,148</u>	<u>\$ 19,311,759</u>	<u>\$ 17,231,974</u>	<u>\$ 12,873,230</u>	<u>\$ 14,195,133</u>

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**REVENUES BY SOURCE**

Fiscal Year	Net Investment Income	Employer Contributions:		Member Contributions	Total
		Amount	% of Covered Payroll		
2001	\$ (575,456)		n/a	\$ 58,109	\$ (517,347)
2002	(1,198,000)	\$ 67,983	5.9%	57,866	(1,072,151)
2003	68,797		n/a	56,968	125,765
2004	1,700,167	407,883	35.4	59,198	2,167,248
2005	1,260,572	575,760	60.0	50,494	1,886,826
2006	1,721,385	516,665	53.9	47,951	2,286,001
2007	3,079,731	381,524	44.2	46,197	3,507,452
2008	(1,588,020)	143,521	12.6	103,757	(1,340,742)
2009	(3,673,366)		n/a	58,617	(3,614,749)
2010	1,686,860	339,830	28.2	59,358	2,086,048

Note: Employer contributions were made in accordance with actuarially determined contribution requirements.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**EXPENSES BY TYPE**

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
2001	\$ 485,920	\$ 268	\$ 27,074	\$ 513,262
2002	527,313		17,352	544,665
2003	477,785		28,666	506,451
2004	456,453		15,412	471,865
2005	475,651	35,606	29,240	540,497
2006	491,003		30,837	521,840
2007	501,041		25,800	526,841
2008	689,232	24,193	25,618	739,043
2009	685,848	27,298	30,849	743,995
2010	736,426		27,719	764,145

Elected Officials' Retirement System  
City of Baltimore, Maryland

**SCHEDULE OF BENEFIT RECIPIENTS BY ATTAINED AGE AND TYPE OF RETIREMENT**  
**SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE**

**Schedule of Benefit Recipients by Attained Age and Type of Retirement**

<u>Age</u>	<u>Number of Recipients</u>	<u>Type of Retirement*</u>		
		<u>Retirees</u>	<u>Beneficiaries</u>	
		<u>0</u>	<u>0</u>	<u>5</u>
45-49	1	1		
50-54				
55-59	3	3		
60-64	7	6	1	
65-69	2	1	1	
70-74	2	2		
75 and up	6	3	2	1
Totals	22	16	4	1
Retired Members	16	16		
Average Annual Benefit	\$33,769	\$33,769		
Beneficiaries	5		4	1
Average Annual Benefit	\$31,555		\$31,874	\$30,277

**\*Type of Retirement:**

0 - Normal retirement for age and service

5 - Non-line of duty death, member eligible for service retirement at death

**Schedule of Active Members by Years of Service**

<u>Years of Credited Service</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
0-1		1			3	3		4	4	4
2-4	4	3	4	4			3	3	2	2
5-9	9	9	8	9	7	2	1			
10-14	6	4	5	4	2	7	7	6	5	5
15-19	1	2	2	2	1	1	1		1	1
20-24	1	2	2	1	3	3	2	3	2	2
25+				1	1	1	1	1	3	3
Total Members	21	21	21	21	17	17	15	17	17	17
Average Service Credit	8.76	9.78	10.50	11.60	11.76	12.76	14.92	11.12	13.18	12.66
Average Age	50.00	53.33	51.00	52.00	51.71	52.71	54.03	53.94	54.94	56.15

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**BENEFIT EXPENSES BY TYPE**

<u>Fiscal Year Ending</u>	Age and Service Benefits:		Death Benefits:	<u>Termination</u>	<u>Total</u>
	<u>Retirees</u>	<u>Beneficiaries</u>	<u>Non Line-of- Duty</u>		
2001	\$ 410,313	\$ 51,339	\$ 24,268		\$ 485,920
2002	419,999	75,607	31,707		527,313
2003	384,694	93,091			477,785
2004	340,443	116,010			456,453
2005	359,962	115,689			475,651
2006	375,314	115,689			491,003
2007	385,352	115,689			501,041
2008	543,705	145,527			689,232
2009	533,779	152,069		\$ 27,298	713,146
2010	578,534	127,813	30,079		736,426

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**AVERAGE MONTHLY BENEFIT PAYMENTS**

Retirement Effective Dates From July 1, 2000 to June 30, 2010	Years of Credited Service				
	5-10	11-15	16-20	21-25	26-30
Period 7/1/00 to 6/30/01:					
Average Monthly Benefit		\$ 1,151			
Average Current Compensation		13,818			
Number of Active Retirees		1			
Period 7/1/01 to 6/30/02		No retirements for this period.			
Period 7/1/02 to 6/30/03		No retirements for this period.			
Period 7/1/03 to 6/30/04		No retirements for this period.			
Period 7/1/04 to 6/30/05:					
Average Monthly Benefit		\$ 816			
Average Current Compensation		21,266			
Number of Active Retirees		3			
Period 7/1/05 to 6/30/06		No retirements for this period.			
Period 7/1/06 to 6/30/07					
Average Monthly Benefit				\$ 2,395	
Average-Average Final Compensation				28,735	
Number of Active Retirees				1	
Period 7/1/07 to 6/30/08:					
Average Monthly Benefit		\$ 4,933			
Average Current Compensation		59,196			
Number of Active Retirees		1			
Period 7/1/08 to 6/30/09:					
Average Monthly Benefit		\$ 956			
Average Current Compensation		11,468			
Number of Active Retirees		1			
Period 7/1/09 to 6/30/10:					
Average Monthly Benefit					\$ 8,323
Average Current Compensation					99,872
Number of Active Retirees					1
Period 7/1/00 to 6/30/10:					
Average Monthly Benefit		\$ 1,693		\$ 2,395	\$ 8,323
Average Current Compensation		\$ 20,315		\$ 28,735	\$ 99,872
Number of Active Retirees		6		1	1

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